

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 8219**  
**BILL NUMBER: HB 1003**

**DATE PREPARED:** Jan 25, 1999  
**BILL AMENDED:**

**SUBJECT:** Property and income tax reduction.

**FISCAL ANALYST:** Bob Sigalow, Diane Powers  
**PHONE NUMBER:** 232-9859, 232-9853

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(80,100,000)	(81,100,000)
State Expenditures		446,577,268	218,709,179
Net Increase (Decrease)		(526,677,268)	(299,809,179)

LOCAL IMPACT	CY 1999	CY 2000	CY 2001
Local Revenues		(326,867,006)	(381,094,503)
Local Expenditures		(308,379,587)	(342,318,675)
Net Increase (Decrease)		(18,487,419)	(38,775,828)

**Summary of Legislation:** ***Welfare:*** This bill eliminates the authority of a county to impose a property tax levy for the county welfare fund, the county welfare administration fund, and the county family and children's fund. The bill eliminates the authority of a county to borrow for welfare purposes and captures the miscellaneous revenue that was used for welfare purposes. It makes conforming amendments.

***Maximum Levies:*** The bill reduces the minimum annual increase in civil unit maximum general fund levies from 5% to 4%. It limits the maximum civil unit levy increase to 8% instead of 10%.

***Inventory Credit/Fund:*** The bill provides an Inventory Tax Reduction Credit for 2000 through 2003. The bill provides that the credit is 5% for 2000, 15% for 2001, 25% for 2002, and 35% for 2003 of the net property tax liability attributable to inventory. The bill also creates an Inventory Tax Reduction Fund for

making distributions to counties and transfers \$342,000,000 to the Fund from the State General Fund. The county assessor is required to determine the assessed value and the county auditor to determine the property tax attributable to inventory.

***Income tax exemptions:*** This bill increases individual and nonchild dependent exemptions by \$500 and makes the \$500 dependent child exemption permanent beginning with the 1999 taxable year.

**Effective Date:** January 1, 1999 (retroactive); July 1, 1999; January 1, 2000; March 1, 2001.

**Explanation of State Expenditures:** ***Welfare:*** Beginning January 1, 2000, the State Division of Family and Children would be responsible for expenses related to welfare services, child welfare services, and welfare administration. Based on the local revenues raised for the county Welfare, Family and Children's, and Welfare Administration Funds, these expenses are estimated at \$308 million in CY 2000, and \$342 million in CY 2001 or \$154 million in FY 2000 (½ year) and \$325 million in FY 2001.

The state will save the amount of property tax replacement credit (PTRC) and homestead credit that is currently paid to counties for these funds. The PTRC and homestead credit savings is expected to amount to approximately \$58 million in CY 2000 and \$64 million in CY 2001 or \$29 million in FY 2000 (½ year) and \$61 million in FY 2001.

The state will also receive excise tax and financial institutions tax (FIT) distributions from the county. The amount of excise tax and FIT that the state would receive is equal to the amount that would have been deposited into the three county welfare funds had they not been repealed by this proposal. The excise and FIT transfer to the state is expected to amount to approximately \$37 million in CY 2000 and \$41 million in CY 2001 or \$19 million in FY 2000 (½ year) and \$39 million in FY 2001.

The net additional state cost (additional cost less excise tax, FIT, homestead credit, and PTRC) is estimated at \$213.5 million in CY 2000, and \$237.4 million in CY 2001. On a fiscal year basis, the net additional state expense is estimated at **\$106.8 million in FY 2000, \$225.5 million in FY 2001, \$246.1 million in FY 2002, and \$261.0 million in FY 2003.**

***Maximum Levies:*** If local civil unit levy growth is reduced by this bill then there would be a reduction in the state's expense for property tax replacement credit (PTRC). The reduction would be equal to 20% of the levy reduction. PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Based on the reduction in maximum levies explained below in local revenues, the state could save approximately \$3.7 million in CY 2000, \$7.8 million in CY 2001, \$12.2 million in CY 2002, \$17.1 million in CY 2003, and \$22.4 million in CY 2004.

Since homeowners' property tax bills would be reduced by this bill, the amount needed to fund the state homestead credit would also be reduced. It is estimated that the homestead credit cost would be reduced by about \$667,000 in CY 2000, \$1.4 million in CY 2001, \$880,000 in CY 2002, \$1.2 million in CY 2003, and \$1.6 million in CY 2004.

The total reduction in expenditures for the state under this provision is estimated at **\$2.2 million in FY 2000, \$6.8 million in FY 2001, \$10.7 million in FY 2002, \$15.7 million in FY 2003, and \$21.1 million in FY 2004.** These estimated expenditure reductions assume that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual state expenditure reduction under the provision may be slightly less than the above amounts.

**Inventory Credit:** This bill would grant inventory tax credits at 5% for 2000, 15% for 2001, 25% for 2002, and 35% for 2003 of the net inventory property tax. Total net property tax on inventory is estimated in the table below along with the applicable credits and corresponding tax year impacts: Total credits are estimated at \$383 million. No credits would be granted under this provision after CY 2003.

<b>Tax Year</b>	<b>% Credit</b>	<b>Estimated Inventory Tax</b>	<b>CY Tax Credit</b>	<b>FY</b>	<b>FY Tax Impact</b>
2000	5%	\$443 M	\$22.2 M	FY 2000	\$11.1 M
2001	15%	\$469 M	\$70.3 M	FY 2001	\$46.2 M
2002	25%	\$465 M	\$116.3 M	FY 2002	\$96.3 M
2003	35%	\$498 M	\$174.2 M	FY 2003	\$145.2 M
2004	NA	NA	NA	FY 2004	\$87.1 M

**Inventory Tax Reduction Fund:** The Inventory Tax Reduction Fund is created by the bill. This bill would require a transfer of **\$342 million** to the Reduction Fund from the state General Fund before July 2, 1999. Interest earned on money in the fund would be deposited in the fund. The initial transfer plus interest would probably be just enough to make payments for the inventory tax credit described below. If there is not enough money in the fund to pay the full amount in CY 2003, then the State Tax Board would estimate the percentage credit that could be paid with the existing fund balance.

**Income tax exemptions:** These changes will increase administrative expenses for the Department of Revenue in order to change tax forms, instructions and computer programs to implement the new level of exemptions. These expenses will be covered under their existing budget.

**Explanation of State Revenues:** *Income tax exemptions:* This bill increases the amount of personal exemptions for a taxpayer, spouse, dependents and blind/elderly which are currently set at \$1,000 per exemption to \$1,500. The provision makes the additional \$500 per child temporary income tax deduction to taxpayers for dependent children for tax years 1999 and 2000 permanent along with increasing the other exemptions to the same level.

Based on the Internal Revenue Service and the Indiana Department of Revenue Individual Income Tax statistics, there were 5.5 M federal exemptions claimed in 1996. The tax impact of these current exemptions at \$1,000 was approximately \$187 M in FY 97. The statistics also show that federal exemptions claimed over the last six years has been increasing at a rate of 1.2% annually. There were an estimated 599,590 blind or elderly exemptions claimed in 1996. The tax impact of these current exemptions was approximately \$20 M in FY 97. The statistics also show that the exemptions for persons age 65 or over and/or blind claimed over the last six years has been increasing at a rate of 1.95% annually.

Increasing these personal exemptions from \$1,000 to \$1,500 for tax years beginning January 1, 1999 would reduce individual income tax revenue by an estimated \$109 M in FY 2000 and \$110.4 M in FY 2001. However the temporary dependent children exemption is approximately \$28.9 M of this revenue impact in FY 2000 and \$29.3 M in FY 2001. Therefore the *net new* revenue loss to the state in **FY 2000** would be

**\$80.1 M, \$81.1 M in FY 2001, \$111.8 M in FY 2002 and \$113.2 M in FY 2003.** Individual income tax revenue is deposited in the General Fund.

**Explanation of Local Expenditures:** *Welfare:* Under this proposal, counties would no longer have expenses for welfare services, child welfare services, or welfare administration. The Family and Social Services Administration (FSSA) estimates that property tax levies for the Family and Children's Fund will amount to about \$220 million in CY 1999, \$215 million in CY 2000, and \$238 million in CY 2001. FSSA also estimates the county Welfare Fund levies at \$19.3 million in CY 1999, \$21.0 million in CY 2000, and \$26.5 million in CY 2001. Estimates for the Welfare Administration Fund levies amount to \$33.8 million in CY 1999, \$35.6 million in CY 2000, and \$37.5 million in CY 2001.

Current estimates are that the Family and Children's Fund levy and the Welfare Administration Fund levy will grow at approximately 5% per year after CY 2001. The county Welfare Fund levy is expected to grow at about 2.5% per year. When the excise tax and FIT that these funds receive are added to the levy amounts, the reduction in local expenditures under this proposal is estimated at **\$308.4 million in CY 2000, \$342.3 million in CY 2001, \$360.3 million in CY 2002, and \$379.2 million in CY 2003.**

**Explanation of Local Revenues:** *Welfare:* This bill eliminates the county Welfare, county Family and Children's, and Welfare Administration Funds. The funds' levies will also be eliminated. The revenue reduction from the elimination of these funds (including gross property tax levies, excise tax, and FIT) is estimated at **\$308.4 million in CY 2000, \$342.3 million in CY 2001, \$360.3 million in CY 2002, and \$379.2 million in CY 2003.**

Property taxpayers' net levies would be reduced by approximately \$213.5 million in CY 2000, and \$237.4 million in CY 2001. The net levy amount takes PTRC and homestead credit into consideration. The statewide net tax rate reduction is estimated to be \$0.3841 in CY 2000 and \$0.4144 in CY 2001.

Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the taxing district's tax rate. As a consequence of eliminating these welfare levies and tax rates, TIF proceeds would be reduced. If the welfare tax rates had been eliminated in CY 1998, TIF districts, statewide, would have lost about \$4.8 million. It is estimated that the loss to TIF districts under this provision will be about \$5.0 million in CY 2000, \$5.3 million in CY 2001, \$5.6 million in CY 2002, and \$5.9 million in CY 2003.

***Maximum Levies:*** Currently, civil taxing units get maximum levy increases equal to their three year average assessed value growth quotient, with a minimum of 5% and a maximum of 10%. This proposal would change the minimum 5% max levy increase to 4%. It would also change the maximum max levy increase from 10% to 8%.

Since most units' growth rates are under the 5% minimum (the average is about 3%), this provision would cause the growth in local civil units' levies and tax rates to slow. The amount by which the levy growth slows is dependent upon the unit's actual three year AV growth quotient, and whether the unit sets the tax levy at the maximum permissible levy.

Under current law, the statewide total maximum levy for civil units (not including schools) is estimated at \$2,109 million in CY 2000 and \$2,219 million in CY 2001. Under this proposal, the statewide total civil unit maximum levy is estimated at \$2,091 million in CY 2000 and \$2,180 in CY 2001. The maximum levy reduction would amount to approximately **\$18.5 million in CY 2000, \$38.8 million in CY 2001, \$61.0**

**million in CY 2002, \$85.3 million in CY 2003, and \$111.9 million in CY 2004.**

These maximum levy reductions would equate to actual levy reductions if it is assumed that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual levy reduction under the proposal may be slightly less than the above amounts.

***Inventory Credit:*** Total local revenues would not be affected by this provision. Inventory taxpayers would receive reductions of their net property tax payments in the amount of \$22.2 million in CY 2000, \$70.3 million in CY 2001, \$116.3 million in CY 2002, and \$174.2 in CY 2003.

***Personal Exemptions:*** The increase in the personal exemptions will reduce taxpayers' Indiana adjusted gross income and affect the base for calculating local option income taxes. Counties who have adopted a local option income tax will lose an indeterminable amount of local option income tax revenue.

**State Agencies Affected:** State Board of Tax Commissioners; Division of Family and Children, Family and Social Services Administration; Indiana Department of Revenue.

**Local Agencies Affected:** All civil taxing units.

**Information Sources:** Local Government Database; *1998 Property Tax Analysis*, State Tax Board; Division of Family and Children; Internal Revenue Service; the Indiana Department of Revenue- Individual Income Tax statistics.